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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DODE-00 PM-05 H-02 L-03 PA-02 AGRE-00
DOE-15 SOE-02 /132 W
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R 190056Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7094
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING APRIL 14.

1. SUMMARY. CANADIAN DOLLAR EXCHANGE RATE FLUCTUATED WIDELY DURING WEEK AND DECLINED ON AVERAGE AGAINST U.S. DOLLAR. RETAIL SALES ADVANCED STRONGLY IN FEBRUARY, BUT SLOW GROWTH OF INDUSTRIAL PRODUCTION CONTINUED. PHASEOUT OF WAGE/PRICE CONTROLS BEGAN APRIL 14 AS PLANNED. SHORT TERM INTEREST RATES ROSE IN WEEK; BOND PRICES FELL. GROWTH OF MONEY SUPPLY TAPERED OFF IN MARCH REFLECTING HIGHER SHORT TERM INTEREST RATES. BANK OF CANADA MAY BE LEANING LIGHTLY AGAINST RECENT MOVEMENT ON INTEREST RATES AND MONEY SUPPLY. END SUMMARY.
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2. EXCHANGE RATE. CANADIAN DOLLAR EXCHANGE RATE FLUCTUATED WIDELY DURING WEEK REACHING HIGH OF 87.57 U.S. CENTS AND LOW OF 86.75 U.S. CENTS. ANNOUNCEMENTS THAT UNEMPLOYMENT AND INFLATION RATES INCREASED IN MARCH WERE MAIN FACTORS CONTRIBUTING TO DOWNWARD PRESSURE ON DOLLAR. EFFECT OF GOC BUDGET ON EXCHANGE RATE INTRODUCED IN PARLIAMENT APRIL 10

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(OTTAWA 1814) DIFFICULT TO GAUGE, BUT WAS PROBABLY NEUTRAL. AMPLITUDE OF FLUCTUATION INCREASED ON FRIDAY AS DOLLAR OPENED AT 86.70 U.S. CENTS, BUT ROSE DURING DAY AMID SPECULATION THAT BOC CONTEMPLATING ANOTHER INCREASE IN BANK RATE, AND CLOSED AT 87.30 U.S. CENTS (OTTAWA 1944). ABSENCE OF INCREASE IN BANK RATE OVER WEEKEND SENT DOLLAR DOWN TO 87.14 U.S. CENTS AT MONDAY'S OPENING, BEFORE RALLY PULLED EXCHANGE RATE UP TO 87.50 U.S. CENTS.

3. BOC HAS APPARENTLY ALTERED ITS TACTIC OF MODERATING UPWARD AND DOWNWARD MOVEMENTS IN CANADIAN DOLLAR EXCHANGE RATE. IT REPORTEDLY STAYED OUT OF EXCHANGE MARKETS ON FRIDAY AND MONDAY, PRODUCING THINNER MARKET (MORE CONDUSIVE TO WIDER FLUCTUATIONS IN EXCHANGE RATE). MOREOVER, RELATIVE ABSENCE OF OFFICIAL INTERVENTION TO MODERATE INCREASES IN DOLLAR EXCHANGE RATE HAS REDUCED SUPPLY OF DOLLARS IN RISING MARKET, INCLUDING SUPPLY AVAILABLE TO COVER PREVIOUS SPECULATIVE "SHORT SELLS". RESULTANT INCREASED RISK HAS APPARENTLY MADE SPECULATORS MORE RELUCTANT TO SELL DOLLARS SHORT AND CONSEQUENTLY MAY HAVE RELIEVED SOME OF THE DOWNWARD PRESSURE ON CANADIAN DOLLAR EXCHANGE RATE.

4. ANTI-INFLATION BOARD. PHASEOUT OF WAGE/PRICE CONTROLS BEGAN APRIL 14 AS PLANNED. MUCH OF BUSINESS AND LABOR WILL, HOWEVER, REMAIN EFFECTIVELY UNDER CONTROLS FOR BALANCE OF
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THIS YEAR. FOR THIS REASON, AND BECAUSE OF EXPECTED WEAK DEMAND, WAGE/PRICE "BULGE" IN IMMEDIATE POST CONTROLS PERIOD UNLIKELY. HOWEVER, CONTINUATION OF HIGH INFLATION INCREASES RISK THAT LABOR WILL SEEK STRONG WAGE GAINS AS IT EMERGES FROM CONTROLS.

5. ECONOMIC INDICATORS.
-- RISE IN CONSUMER PRICES ACCELERATED TO 8.8 PERCENT IN MARCH FROM 8.7 PERCENT INCREASE IN FEBRUARY. RISE LED BY FOOD AND ENERGY PRICES (OTTAWA 1910).

-- RETAIL SALES CONTINUED TO ADVANCE STRONGLY IN FEBRUARY, RISING TO CDOLS 5.6 BILLION, A 4.3 PERCENT INCREASE FROM JANUARY LEVEL, WHICH HAS BEEN REVISED TO SHOW SLIGHT DECLINE FROM DECEMBER RATHER THAN 2.1 PERCENT INCREASE (OTTAWA 1444). COMPARING AVERAGES OF THREE MONTHS ENDING FEBRUARY, JANUARY AND DECEMBER, RETAIL SALES HAVE RISEN AT ANNUAL RATES OF 5.12 PERCENT, 6.41 PERCENT AND 4.5 PERCENT RESPECTIVELY.

--INDEX OF INDUSTRIAL PRODUCTION ROSE 0.9 IN FEBRUARY TO 125.7. INDEX STOOD 1.6 PERCENT ABOVE LEVEL OF FEBRUARY,

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1977. MANUFACTURING OUTPUT WAS UP 0.8 PERCENT IN MONTH. PRODUCTION IN MINES, QUARRIES AND OIL WELLS INCREASED BY 3 PERCENT, WHILE UTILITIES OUTPUT DECLINED BY 1 PERCENT. OF 20 INDUSTRIES COVERED IN INDEX, OUTPUT ROSE IN 15 AND FELL IN 5.

--VALUE OF NEW BUILDING PERMITS DECLINED BY 16.5 PERCENT IN JANUARY FROM DECEMBER LEVEL OF CDOLS 1.2 BILLION, PROBABLY REFLECTING TERMINATION JANUARY 1 OF TAX WRITE-OFFS ON CONSTRUCTION OF MULTI-UNIT DWELLINGS. FALL IN VALUE OF PERMITS IN JANUARY REFLECTED IN SUBSEQUENT DECEL-ERATION OF HOUSING STARTS. HOUSING STARTS IN MARCH RAN AT 288,500 ANNUAL RATE, COMPARED WITH 295,100 ANNUAL RATE IN FEBRUARY.
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6. CAPITAL MARKETS. SHORT TERM INTEREST RATES CONTINUED TO RISE IN WEEK. INTEREST RATE ON 3 MONTH TREASURY BILLS WAS 8.18 PERCENT, COMPARED WITH 8.09 PERCENT PREVIOUS WEEK. RISE IN SHORT TERM INTEREST RATES HAS MODERATED GROWTH OF M1. M1 (S.A.) FELL TO CDOLS 20.8 BILLION IN MARCH FROM FEBRUARY LEVEL OF CDOLS 30.0 BILLION. SINCE JUNE, 1977, (BASE FOR CALCULATING BOC'S TARGET RANGE), M1 HAS RISEN

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R 190056Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7095
INFO AMCONSUL CALGARY
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AMCONSUL QUEBEC
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AT SEASONALLY ADJUSTED ANNUAL RATE OF ABOUT 8.5 PERCENT, I.E., SLIGHTLY BELOW MID-POINT OF BOC'S 7-11 PERCENT TARGET RANGE AND DOWN FROM 9.7 PERCENT ANNUAL RATE OF INCREASE BETWEEN JUNE AND FEBRUARY. DURING WEEK, BOC PURCHASED TREASURY BILLS IN SECONDARY MARKET TO HELP SLOW RISE IN SHORT TERM RATES. BOND PRICES ROSE BY ABOUT ONE-HALF POINT IN WEEK.

7. FOREIGN BORROWING. PROVINCE OF SASKATCHEWAN U.S.DOLS 125 MILLION ISSUE IN NEW YORK SOLD WELL IN REPORTEDLY BUOYANT MARKET. QUEBEC HAS ANNOUNCED PLANS TO FLOAT CDOLS 85 MILLION ISSUE IN FRG. ENDERS

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